

STREET RAILWAYS IN THE DISTRICT OF COLUMBIA.

JANUARY 28, 1921.—Referred to the House Calendar and ordered to be printed.

Mr. GOULD, from the Committee on the District of Columbia, submitted the following.

REPORT.

[To accompany H. R. 15914.]

The Committee on the District of Columbia, to whom was referred the bill (H. R. 15914) entitled "To amend the provisions of an act relating to certain railway corporations owning or operating street railways in the District of Columbia, approved June 5, 1900," having considered the same, reports it back to the House with a recommendation that the bill be passed.

Until about 20 years ago there were a number of street railway companies in the District of Columbia, each separate and independent of the other. Whenever anyone wished to use a street car more than a very short distance he was compelled to use more than one line. Because of the many fares to be paid and the many transfers to be made much dissatisfaction grew up among the patrons of those many street railway lines. In order to allay that dissatisfaction and to give a better service, Congress about 20 years ago permitted a consolidation of a number of the different companies. Nearly all of the smaller companies were acquired either by the Capital Traction Co. or by the Washington Railway & Electric Co., the latter acquiring the larger number of companies. The District of Columbia by the merger to that extent was left, not without minor exceptions however, with two big companies, viz, the Capital Traction Co. and the Washington Railway & Electric Co.

The Capital Traction Co. has 64 miles of track, while the Washington Railway & Electric Co. has 131 miles. A large per cent of the trackage of the Washington Railway & Electric Co. is beyond the congested part of the city, while that of the Capital Traction Co. is very largely within the congested part of the city. In the densely settled and business part of the city the two companies are rivals and competitors. That condition, however, does not apply to the outlying lines of the Washington Railway & Electric Co.

As the Capital Traction Co. operates mainly in the thickly settled part of the city, its runs are shorter and its cars are filled; in consequence, their operating expenses are comparatively smaller and their profits larger. Upon the other hand, the hauls of the Washington Railway & Electric Co. are longer; and, throughout much of its length, the hauls are longer and its patrons fewer in number; the result being that its operating expenses are larger and its profits smaller, notwithstanding the fact that the Washington Railway & Electric Co. operates, per car mile, at a lesser expense than does the other company.

The result of the whole situation is, that the Capital Traction Co. is able to operate on a much smaller fare than is the other company. The Utilities Commission for the District of Columbia has sought in vain to avoid authorizing the present seemingly exorbitant fare. No one denies that the Capital Traction Co. can earn a sufficiently reasonable return to its stockholders upon a smaller fare; neither does anyone dispute that the Washington Railway & Electric Co. is able to continue operating upon the present fare. That company is stating that it can not operate at a profit on the present fare.

Frequently it has been suggested and urged that one fare be created for the Capital Traction Co. and a larger one for the Washington Railway & Electric Co. However, it is conceded by virtually all those who have given thought to the subject that if different fares were established for the two companies that, at least in the congested part of the city, where there is rivalry and competition between the two companies, that those who use the street cars would patronize the one giving the smaller fare, thus leaving the other company with fewer patrons; and, in consequence, with less revenue than it now has.

After several years of hearings and discussions the committee almost unanimously has reached the conclusion that a merger of the two great companies is the only remedy for the unfortunate situation which now exists. The committee likewise has come to the conclusion that there can be no equitable merger unless all of the property of the Washington Railway & Electric Co. should be included in the merger. The Capital Traction Co. owns its tracks, equipment, and power plant. Under provision of an act of Congress approved June 5, 1900, 11 different companies were consolidated and became what is now the Washington Railway & Electric Co. Under that act there was a provision which now is deemed to be unwise, which forbade the Washington Railway & Electric Co. from owning the property of the Potomac Electric Power Co.; thereby that company was permitted to own tracks, and equipment, with the necessary real estate, but was forbidden to own the power plant, a very valuable piece of property. The Washington Railway & Electric Co., under its authority to invest in stocks and bonds has purchased all of the capital stock of the Potomac Electric Power Co.

The several propositions to merge the two great railway systems contemplate a merger of all of the property, including its own power plant, of the Capital Traction Co., but deny the Washington Railway & Electric Co. to put into that the power plant. The exclusion of this power plant from the merger is the real obstacle which renders the merger impossible.

The preponderance of opinion is, that when the inevitable merger of the two big companies does come, that the Capital Traction Co., being the stronger financially, will be the survivor in reality if not in name. The power plant of that company is not sufficient to haul all the cars now owned by it and the cars now owned by the Washington Railway & Electric Co.; and the number of both must, of necessity, be constantly increased.

Since the Washington Railway & Electric Co. owns all of the capital stock of the Potomac Electric Power Co., and since the power plant is officered and controlled by the Washington Railway & Electric Co., and as owner of its capital stock receives all of its dividends, it frequently is charged that the railway company causes the power plant to furnish current too cheaply to the railway company which controls it.

If a merger should be made that would include all of the property of the Capital Traction Co. and all of the property of the Washington Railway & Electric Co. except the power plant, then the merged railway company would use the power plant now owned by the Capital Traction Co., but would be compelled, in addition, to buy current from the Potomac Electric Power Co. No doubt the complaint then would shift from too little being charged for that current into a charge that too much was being charged for it.

In addition, the Washington Railway & Electric Co., in becoming the owner of the entire outstanding capital stock of the Potomac Electric Power Co., has guaranteed the principal and interest on all of the consolidated mortgage bonds and its other securities. So, if the Potomac Electric Power Co., all the stock of which is owned by one of the railway systems which is to be put into the merger, is to continue after the merger as a guarantor of the principal and interest on the securities of the Potomac Electric Power Co., a complication would arise which would be eliminated if the Potomac Electric Power Co. were included in the merger.

To be still more specific: Under the present law, while the Washington Railway & Electric Co. and the Potomac Electric Power Co. are technically and legally separate and distinct entities, they have identical boards of directors, and the chief executive officers of both companies are the same. Yet they make common or joint use of much property owned separately by each, but useful and necessary to both. The railway company is dependent entirely upon power generated in the plants of the power company. This joint use of property has been economical and has saved duplication of investment. If the power plant should be included in the merger, that economy would be just as beneficial to the two merged companies as it now is to the one company.

This bill, if enacted into law, will permit the union and operation of both the railway company and the power company under a single name and under a single board of directors and staff of executive officers. At the same time it will reduce overhead cost and in other ways result in increased efficiency and economy of operation.

The bill will not affect directly the relations or diminish the obligations or duties of either company to the public or to their creditors. It will only permit those companies to do what is already permitted by the general corporation laws of most of the States of

the Union and what is now generally regarded as the best modern practices, and at the same time will grant no new franchises to either company.

The bill will improve and strengthen the credit of the Washington Railway & Electric Co. and permit more economical financing of needed extensions, additions, and improvements through the creation of a direct lien on consolidated properties, rather than in the form of a collateral mortgage pledging the stock of the power company.

The power company has a first, second, and third mortgage, all closed, making it well-nigh impossible for that company to do necessary financing; nor can that company do any of its financing through the issuance of stock, as all of its stock must be pledged under the mortgage of the railway company.

This bill certainly is a prerequisite step toward the promotion of a merger of the Washington Railway & Electric Co. with the Capital Traction Co. Therefore, the committee earnestly expresses the wish that the House pass this bill.



MERGING OF CERTAIN CORPORATIONS IN THE DISTRICT OF COLUMBIA.

FEBRUARY 5, 1921.—Ordered to be printed.

Mr. MAPES, from the Committee on the District of Columbia, submitted the following

MINORITY REPORT.

[To accompany H. R. 15914.]

The undersigned opposed the action of the majority of the Committee on the District of Columbia which resulted in the subsequent introduction of H. R. 15914 and the report thereon.

The bill proposes to allow the Washington Railway & Electric Co., a street railway corporation operating one of the principal street railway systems within the District of Columbia, to acquire the property and franchises of the Potomac Electric Power Co., an electric light and power corporation, and the only one furnishing electric light and power to the public generally within the District of Columbia. If the bill becomes a law it will be the final step in the process of complete absorption by the Washington Railway & Electric Co. of the Potomac Electric Power Co., and will result in the elimination of the Potomac Electric Power Co. as a separate corporate entity.

The history of the legislation leading up to this final step is interesting and instructive.

The Potomac Electric Power Co. was incorporated under the general incorporation laws of the District in 1896.

In 1900 what is now known as the Washington Railway & Electric Co. was authorized by an act of Congress, approved June 5, 1900, to acquire the stock of the different street car companies now comprising that system. In one of the concluding paragraphs of the act making that authorization the railway company was authorized to acquire the "capital stock or other securities of any company supplying or under contract to supply electric power in the operation of its railway to it or to any of the corporations whose shares of stock or whose property and franchises it is authorized to acquire under this act."

The reports of the committees of the two Houses recommending that legislation emphasized the desirability and importance of the "union of certain street railway corporations * * * under one management and control," but neither the report of the House committee nor that of the Senate committee made any reference to that part of the bill which proposed to authorize the railway company to acquire the stock of the electric light and power company, nor was any reference to that provision of the bill made in the very brief discussion of the bill on the floor of the House of Representatives, and the bill passed the Senate without any discussion whatever.

Proceeding under the authority conferred in that act, the Washington Railway & Electric Co. acquired and now owns all the stock of the Potomac Electric Power Co., but the act further provided that "in no event shall said railway corporation be authorized to receive a transfer of the property or franchises of such electric power company." It is that provision of the act of 1900 no doubt which the present bill proposes to amend or repeal, although it makes no reference to the act except in the title.

In 1914 the then Commissioners of the District of Columbia recommended the passage of a bill to prevent street railway companies in the District of Columbia from owning the stock of corporations supplying electric current for light or power for sale in the District of Columbia, and to compel any street car company holding such stock to dispose of same. Extensive hearings on that bill were held before the House Committee on the District of Columbia of the Sixty-third Congress, but no report was made thereon. The Washington Railway & Electric Co. opposed its passage.

It is now proposed to go in the opposite direction and, instead of compelling the separation of the two corporations and to divorce the stock ownership of the same, to allow the complete absorption of the one by the other.

In July, 1917, the Public Utilities Commission of the District acting upon its authority to regulate and fix the charges of public utility corporations doing business within the District of Columbia reduced the rate charged for electric current by the Potomac Electric Power Co. from 10 cents to 8 cents per kilowatt hour. The Potomac Electric Power Co. opposed that action of the commission and appealed the matter to the courts, where it is still pending. Pending the final settlement of the case the Potomac Electric Power Co. collects 10 cents per kilowatt hour from its customers for its service, but is required to impound the difference between the 10 cents and 8 cents, or 2 cents, per kilowatt hour. On September 3, 1920, the Public Utilities Commission changed the rate from 8 cents to 8½ cents and ordered that 1½ cents be impounded after that date. On January 14, 1921, this impounded fund amounted to over \$1,600,000, and increases at the rate of about \$400,000 per year. If the court sustains the finding of the commission this impounded fund is to be repaid to the customers of the power company. If the court finds with the power company the fund is retained by the company.

The Washington Railway & Electric Co. operates at some disadvantages within the District of Columbia as compared with the Capital Traction Co. At the same time it is not necessary to shed too

copious tears over the financial condition of the Washington Railway & Electric Co. Some of its subsidiary lines at least were first installed quite as much for the purpose of enhancing real estate values as for anything else. The company never paid a dividend on its preferred stock until December 1, 1904, nor upon its common stock until December 1, 1909. It is submitted that it has come through the past few years much better than the average street car company throughout the country. According to its own report made to Congress January 31, 1921, covering the year ended December 31, 1920, it paid interest on all of its outstanding bonds and mortgages, 5 per cent dividends on its preferred stock of \$8,500,000 and put into surplus during the year the additional sum of \$231,198.40. The common stock of the company is \$6,500,000, but how much of it represents actual value, if any, it is difficult to ascertain. It is easy to see, however, that if the court should sustain the contention of the company in its contest with the Public Utilities Commission relative to the charge for electric current the company would be enabled to pay a very substantial dividend upon this common stock.

The street-car situation within the District of Columbia, with two different lines under separate and distinct management, is quite impossible. The two systems ought to be merged or consolidated into one company, if not by voluntary action of the board of directors and stockholders of the two companies, then Congress should pass legislation which would compel them to do so.

It is said that the passage of the present bill is necessary in order to bring about a consolidation of the street-car companies, but its passage is in no way conditioned upon their consolidation. It, in fact, has nothing to do with their consolidation. It is purely and simply a bill to do away with the Potomac Electric Power Co. as a separate entity. It is something which has been desired for a number of years by the Washington Railway & Electric Co., in fact, long before a consolidation of the two remaining street-car systems operating within the District was seriously considered, and instead of having a tendency to bring about their consolidation it is more likely to have the directly opposite effect and to make consolidation more difficult and improbable. If the absorption of the Potomac Electric Power Co. by the Washington Railway & Electric Co. were conditioned upon the consolidation of the two principal street-car systems in the District it might be justified in order to accomplish the greater good, but the present bill standing alone ought not to pass.

There may be some good argument in favor of the proposed legislation, but it is submitted that it is not a necessary function of a street-railway corporation to sell light and power to the individual private users thereof, and to permit the same to be done will not help solve the very perplexing street-car situation within the District of Columbia. It is difficult to predict with any certainty what the result of the passage of the bill will be, but it is safe to say that in itself it will not lower the bills of the private consumers of light and power within the District of Columbia. It would simply add to the complexity of an already complex stock situation, so complex that no one short of an expert is able to figure out how much of the common stock of